

EQUITY RESEARCH

August 10, 2023

Earnings Update

KINAXIS INC.

Phased Deals Driving Reduced Sales Cycles

Our Conclusion

With an in-line quarter and an unchanged 2023 outlook, Kinaxis' Q2 did not change our overall positive outlook on the business. The pipeline continues to grow, although the procurement process remains extended for some larger deals, with the company noting one large automotive win that slipped out of Q2. Enterprises have also been opting for smaller initial deals, leading to the slower ARR growth in Q2. Amid this environment, we have reduced our 2023E SaaS growth to the lower end of Kinaxis' guidance range and remain comfortable at this level given significant contracted backlog, which represents ~90% of F23 SaaS guidance. We see Kinaxis as well positioned as the macro environment improves, with supply chains a C-suite focus and Kinaxis' growth in new verticals (consumer, QSR) and mid-market adding company-specific tailwinds. We retain our Outperformer rating and \$200 price target.

Key Points

Public Cloud Rollout Impacting Margins: Adjusted EBITDA margin of 14.4% was 50 bps above consensus, benefitting from a contract that switched to term license revenue. Margins remain impacted by the shift to the public cloud, with Kinaxis incurring both public and private hosting costs for customers transitioning to the public cloud. This dual hosting cost dynamic is expected to continue throughout 2024. We continue to see F23 as a margin trough (we are expecting 15% adj. EBITDA margin) and management reaffirmed its medium-term target of 25% adj. EBITDA margin.

Enterprises Shifting To Smaller Initial Deals: While the pipeline remains at all-time highs, the composition of enterprise deals appears to be shifting towards more staged implementations, with smaller contract values in year one and contracted spending increases in future years. This has been impacting ARR growth, given that only year one is included in the ARR calculation. The company appears willing to shift to these smaller, staged implementations given the protracted approval process required for larger deals, with Kinaxis seeing continued contracting delays on larger deals. Historically, Kinaxis has seen subscription revenue from "land and expand" customers doubling over a three-year period, and with Kinaxis standing up an expansion sales team we expect recent deals to translate into larger revenue opportunities going forward.

Average Sales Cycles Declining: The average sales cycle for a new RapidResponse customer declined below one year for the first time in company history. Declining average sales cycles is primarily a function of the shift to smaller customers, as purchasing decisions remain slower than normal at large enterprise customers. Smaller initial year values for enterprise customers are also a contributing factor. Margin contribution for the enterprise and mid-market customers remains similar, while customers at the smaller end of the spectrum are less profitable as a result of VARs assisting with the sales process.

Stephanie Price, CFA
Analyst
+1 416-594-7047
Stephanie.Price@cibc.com

Scott Fletcher, CPA, CA
Analyst
+1 416-956-3229
Scott.Fletcher@cibc.com

Erin Kyle, CPA
Associate
+1 416-313-9851
Erin.Kyle@cibc.com

Outperformer

KXS-TSX, Sector: Information Technology

Current Price (8/10/23): C\$152.74

Price Target (12-18 mos.): C\$200.00

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
Revenue(mln)	250.73A	366.89A	425.62E	510.68E
Prior			432.83E	514.05E
Adj. EBITDA(mln)	39.9A	79.4A	63.8E	78.0E
Prior			69.0E	84.0E

Revenue(mln)	Q1	Q2	Q3	Q4
2023	101.13A	105.77A	105.51E	113.21E
Prior		106.20E	109.84E	115.67E
2022	98.11A	80.80A	89.50A	98.48A

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	17.1A	15.2A	14.6E	16.8E
Prior		16.1E	19.5E	16.4E
2022	33.1A	10.4A	14.8A	21.1A

Valuation	2021	2022	2023	2024
EV/Sales	13.9x	9.5x	8.2x	6.8x
EV/EBITDA	87.5x	43.9x	54.7x	44.7x

Stock Performance and Key Indicators

Enterprise Value	C\$4,673M	Shares O/S:	28.3M
Market Cap.:	C\$4,325M	Float:	27.5M
52-wk Range:	C\$131.12 - C\$190.42	Div. / Yield:	NIL/NIL

TSX Composite Index vs. KXS-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.340:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page 5.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

Kinaxis Inc. (KXS-TSX) — Outperformer

Price (8/10/23) C\$152.74 12-18 mo. Price Target C\$200.00

Sector: Information Technology

Stephanie Price, CFA +1 416-594-7047 Stephanie.Price@cibc.com

Peer Comparison	2021	2022	2023E	2024E
EV/EBITDA - Rule-Of-40 Peers	26.8x	26.9x	28.4x	28.6x
EV/EBITDA - Kinaxis	-	39.8x	49.6x	40.5x
EV/Sales - Rule-Of-40 Peers	21.9x	12.0x	10.5x	8.6x
EV/Sales - Peer Kinaxis	12.6x	8.6x	7.4x	6.2x
Key Financial Metrics	2021	2022	2023E	2024E
Sales Growth	11.8%	46.3%	16.0%	20.0%
Per Share Data	2021	2022	2023E	2024E
CFPS	1.81	0.86	1.87	2.40
Adj. EPS Dil.	0.58	1.60	1.32	1.31
Wgt Avg # of Shares	27.2	27.6	28.3	28.8
FD Number of Shares	27.7	28.4	28.5	28.8
Income Statement	2021	2022	2023E	2024E
Revenue	251	367	426	511
Cost of Goods Sold	87	131	170	195
Gross Profit	164	236	256	316
SG&A	162	208	254	288
R&D	57	74	85	99
Tot Operating Exp	162	208	254	288
OpEx (% of Revenue)	64.63%	56.66%	59.73%	56.39%
Adj. EBITDA	40	79	64	78
Adj EBITDA Margin	15.9%	21.7%	15.0%	15.3%
D&A	2	11	2	8
Net Interest Income	(0)	1	4	2
Tax Expense	2	11	2	8
Net Income	(1)	20	(1)	22
Net Margin	(0.5%)	5.5%	(0.1%)	4.3%
Cash Flow Statement	2021	2022	2023E	2024E
Net CFO	50	25	53	69
Capex	(34)	(18)	(3)	(3)
Net CFI	(35)	(75)	(44)	(3)
Net CFF	6	27	16	0
Net Cash Flow	21	(24)	26	66
Free Cash Flow	16	6	50	66
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	203	175	201	267
Accounts Receivable	119	208	245	294
Net PP&E	52	52	35	3
Total Assets	520	648	688	773
Deferred Revenue	99	133	121	161
Total Liabilities	199	247	222	269
Shareholders' Equity	321	401	466	504
Tot Liab & SE	520	648	688	773

Source: FactSet, Company Reports and CIBC World Markets Inc.

Company Profile

Kinaxis Inc. is a leading provider of supply chain management software, with a SaaS offering that connects to all data, provides better visibility, quicker response times and easier scenario modelling.

Investment Thesis

1) Market-leading organic growth; 2) solid base business; 3) scaling into global software firm; and 4) benefitting from global supply disruptions.

Price Target (Base Case): C\$200.00

Based on 2024 revenue growth of 14% and an EV/Sales multiple of 8x.

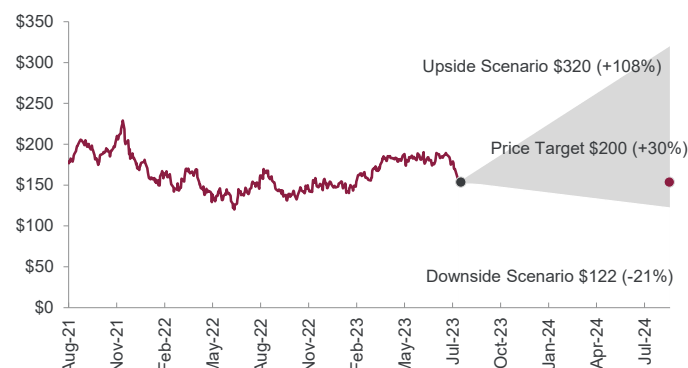
Upside Scenario: C\$320.00

Based on 2024 revenue growth of 20% and an EV/Sales multiple of 12.5x.

Downside Scenario: C\$122.00

Based on 2023 revenue growth of 10% and an EV/Sales multiple of 5.0x.

Scenario Analysis:



Q2 Results In Line: Kinaxis reported revenue of \$105.8MM, in line with both consensus and CIBC. Adjusted EBITDA of \$15.2MM was slightly above consensus (\$14.7MM) and below our estimate (\$16.1MM). Margin of 14.4% was 50 bps above consensus (13.9%) and 70 bps below our estimate (15.1%).

Exhibit 1: KXS – Q2/23 Financial Results

	Q2-F2023			Q2-F2022	Y/Y%	Q1-F2023	Q/Q%
	Actual	CIBC	Cons				
Consolidated							
Revenue (\$MM)	105.8	106.2	105.7	80.8	31%	101.1	5%
SaaS & Subscription	64.1	64.7	64.8	51.1	25%	63.1	2%
Subscription Term License	7.1	4.5	4.4	0.4	1775%	7.0	1%
Professional Services	30.0	33.0	32.1	25.4	18%	26.6	13%
Maintenance & Support	4.6	4.0	4.5	3.9	17%	4.4	5%
EBITDA (\$MM)	15.2	16.1	14.7	10.4	47%	17.1	-11%
EBITDA Margin	14.4%	15.1%	13.9%	12.8%	12%	17.0%	-15%
Adjusted EPS	0.25	0.30	0.29	0.14	78%	0.40	-38%

Source: Company reports, FactSet and CIBC World Markets Inc.

Changes To Our Model: We have updated our model to reflect the Q2 results. We have increased our revenue estimates in both 2023 and 2024 given the strong backlog.

Exhibit 2: KXS – Changes To Our Model, F2022A To F2024E

	Revenues (\$mln.)	EBITDA (\$mln.)	Adjusted EPS	CFO (\$mln.)
2022A	367	79	1.60	25
2023E				
CIBC est. – new	426	64	1.32	53
CIBC est. – prior	430	63	0.99	50
Consensus	431	66	1.39	91
2024E				
CIBC est. – new	511	78	1.31	69
CIBC est. – prior	514	84	1.44	96
Consensus	515	90	1.85	97

Source: Company reports, FactSet and CIBC World Markets Inc.

Environmental, Social and Governance (ESG) Metrics for KXS-TSX

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	3.6%	3.6%	0.3%	1%	1%
Board Gender Diversity	17.0%	29.0%	38%	38%	38%
Separation of Chair & CEO	YES	YES	YES	YES	YES
Dual-class Ownership?	NO	NO	NO	NO	NO
Disclose ESG Data?	NO	NO	YES	YES	YES
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$1.9	\$1.0	\$1.7	\$1.8	\$1.9
Diversity Targets	NO	NO	YES	YES	YES
Women Managers	33%	29%	23%	22%	29%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	0	0	0
Net-zero Targets?	NO	NO	NO	YES	YES

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

11.8 **-0.6** **Low Risk**

Updated on
Jun 11, 2023

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	522/15536	4th
Software & Services INDUSTRY	17/1074	2nd
Enterprise and Infrastructure Software SUBINDUSTRY	6/451	2nd

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score Category	ESG Risk Management Score Category	ESG Risk Rating Score Category	Contribution to ESG Risk Rating
Corporate Governance	9.0 High	65.0 Strong	3.2 Low	26.8%
Human Capital	8.0 High	63.5 Strong	3.2 Low	27.0%
Product Governance	2.0 Low	30.0 Average	1.4 Negligible	11.9%
Business Ethics	4.0 Medium	68.8 Strong	1.4 Negligible	11.8%
Data Privacy and Security	6.6 Medium	75.0 Strong	2.7 Low	22.6%
Overall	29.6 Low	64.5 Strong	11.8 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	8	0	Value	206	+1
Momentum	6	0	Momentum	57	-15
Quality	7	0	Quality	113	+4
Market	9	0	Market	147	0
Low Volatility	6	0	Low Volatility	118	+11
Growth	6	+1	Growth	94	+18

Note: Ranking out of 11 stocks

Note: Ranking out of 227 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	-4	Momentum	C
Beta	1.03	MACD	D
Volatility	↔	Alpha (Sector)	D
Trend	↔	Alpha (Index)	C
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.

Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

Trend/Volatility metrics measure price deviations relative to underlying moving averages.

RSI is an oscillator that provides mean-reversion estimations.

MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

We calculate Kinaxis' price target of C\$200 based on an 8.5x EV/Sales multiple on our 2024E revenue, under the current capital structure.

Key Risks To Price Target

The primary risks we see to our price target include: 1) customer concentration, 2) economic conditions, 3) ability to scale, and 4) competition.

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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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Overweight	O	Sector is expected to outperform the broader market averages.
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Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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Neutral	131	44%	Neutral	131	100%
Underperformer	7	2%	Underperformer	7	100%
Tender	1	0%	Tender	1	100%
Restricted	4	1%	Restricted	4	100%

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